



STATE OF WISCONSIN
Department of Employee Trust Funds
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CORRESPONDENCE MEMORANDUM

DATE: February 22, 2005

TO: Employee Trust Fund Board

FROM: Dave Stella, Deputy Secretary
Department of Employee Trust Funds

SUBJECT: Cost estimate of implementing Employee Trust Fund (ETF) Board's proposed statutory change on interest crediting for lump sum benefits

At the December meeting the Board directed the Department to propose a statutory revision that would change how prorated interest is credited for lump sum benefits. We were also directed to provide an estimate of the cost to implement this proposal so the Board can assess whether the value of the change justifies the one-time and ongoing implementation costs.

There are two costs associated with implementing the proposed change, the one-time implementation costs plus the annual operational costs of the workload increase that would result. The one-time implementation cost has an estimated range of \$82,478 - \$111,478. There is a cost range because the Division of Information Technology (DoIT) provided a cost range of \$76,560 - \$105,560, and that it would take between 171 – 238 days to make the necessary system changes. The ongoing operational costs are estimated at \$98,976, based on the assumption that separation benefits would not be affected by the proposed change.* This represents a need for approximately 1.8 additional full-time positions. Future costs and staffing requirements would increase as salaries and the volume of lump sum benefits increase.

There are a couple of ancillary issues to be considered if this change goes forward:

- S. 40.08 (7) provides a threshold for lump sum benefit underpayments and overpayments; if the under- or overpaid amount falls below the threshold the amount is "written off." This means that if the supplemental interest payment falls below the threshold, under current law we could not actually issue the payment. The 2005 threshold is \$83.00; this amount is increased annually based on the national salary index.
- Only changing the prorated interest rate for lump sum benefits can create an inconsistency between lump sum and annuity benefit amounts. For example: A participant is eligible for a money purchase retirement benefit, and has a choice between a monthly annuity or a lump sum. Both benefits currently receive prorated 5% interest for the partial year. If we credit prorated interest at the 5% rate to the account balance on which the annuity is based, but credit prorated effective rate interest (after the fact) for the lump sum benefit, the two benefits would have different values.

However, the two benefits are intended to have the same value, both statutorily and actuarially. If this change is made for lump sum benefits, the possibility of making a similar change for monthly benefit calculations should be explored.

** Under current law separation benefits do not include any prorated interest under: only annual interest is included in a separation benefit. Adding prorated interest to separation benefits would increase the one-time implementation costs, and would approximately double the annual ongoing costs. This change is also likely to be viewed as a benefit increase by the legislature.*

Board	Mtg Date	Item #
ETF	03/18/05	7

Prorated Interest Crediting Change Fiscal Estimate

One-Time Costs:

	Assumptions	Hours	Hourly Rate	Total
Project Planning & Implementation:				
Bureau Directors	2 @ 6 hrs each	12	\$30	\$360
TF Supervisors	6 @ 4 hrs each	24	\$21	\$504
Sub-Totals		36		\$864

Revise forms and brochures:				
Revise Forms/Brochures	6 @ 2 hrs each	12	\$19	\$228
Sub-Totals		12		\$228

Business User Costs for Computer System Enhancements:				
Identify program changes needed & prepare project requests	4 programs @ 2 hrs each	8	\$19	\$152
User testing	4 programs @ 10 hrs each	40	\$19	\$760
Sub-Totals		48		\$912

Operational Adjustments:				
Revise procedures	7 @ 5 hrs each	35	\$19	\$665
Staff Training	57 @ 3 hrs each (average)	171	\$19	\$3,249
Sub-Totals		206		\$3,914

One-Time IT Costs for Necessary Computer System Enhancements:				
Cost Range for IT Implementation (detail available):			\$76,560 - \$105,560	

Total one-time costs to implement legislation change = \$82,478 - \$111,478
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**Ongoing Annual workload Increase for supplemental benefits:

Type of Benefit Supplemented	Estimated Annual Number	Average Time Each	Estimated Total Hours
Lump Sum Retirement	1,558	1.339	2,086.16
Non-Annuitant Death	527	.978	515.41
Calls to DRS Staff	1,000	.167	167.00
Totals	3,085		2,768.57

** Based on 2003 volume of lump sum benefits: the volume will increase over time.

Total Annual Cost to Implement Proposed Change:
$2,768.57 \div .76^{***} = 3,642.86 \times \$19 \text{ per hour} = \$69,214.34 \times 1.43^{****} = \mathbf{\$98,976.51}$

*** Actual work hours with average non-productive paid hours factored in (e.g. vacation, sick leave, etc.)

**** Average hourly rate with standard fringe benefit costs factored in.